**MEMORANDUM**

HOUSE FISCAL AGENCY

**DATE:** February 6, 2007

**TO:** House Appropriations Subcommittee on Transportation, House Transportation Committee

**FROM:** William E. Hamilton

**RE:** The Michigan Department of Transportation's 2007-2011Five-Year Program

***Summary***

On January 25, 2007, the State Transportation Commission approved the Michigan Department of Transportation's 2007-2011 Five Year Transportation Program. The program, also referred to as the "Five Year Plan," was transmitted to the Legislature on January 31, 2007, in compliance with a boilerplate requirement of the FY 2006-07 transportation appropriations act.

The 2007-2011 Five Year Program identifies a total of $6.63 billion in state highway investments over the program period. However, the document indicates that estimated program funding will not be sufficient to sustain stated program goals. The highway preservation element of the program will not be able to sustain state pavement condition at desired levels; starting in 2008 statewide trunkline pavement condition will deteriorate faster than the program can preserve it. In addition, estimated available funding during the Five Year Program period does not provide for the construction of a number of previously identified critical state trunkline capacity improvement projects.

The balance of this memo provides background on the development of the Five Year Program and the projected funding shortfall in the state trunkline highway program.

***Background on the Five Year Road and Bridge Program***

The Michigan Department of Transportation published its first "Five Year Road and Bridge Program" in February 1999. This document, often referred to as the "Five Year Plan," was developed by the department following the 1998 passage of a state gas tax increase, and the reauthorization of the federal-aid transportation program (TEA-21), both of which brought increased funding for state transportation programs. The first Five Year Program identified statewide road and bridge program goals, as well as specific state trunkline road and bridge projects by region, for fiscal years 1999 through 2003. The statewide program goals, described in detail below, have guided the development of subsequent Five Year Programs.

Each year the department has updated the Five Year Program to reflect planned road and bridge projects for each subsequent five-year period. Starting in 2004, the department has included aviation, transit, and rail programs in the document, re-titled as the "Five Year Transportation Program."

Although the first Five Year Program was published as a department initiative, the Legislature soon made the document a required report through boilerplate in appropriation act boilerplate. Section 307 of 1999 PA 136, the FY 1999-2000 transportation appropriation act, required the department to provide to the Legislature and the House and Senate Fiscal Agencies, by February 1 of each year, "its rolling 5-year plan listing by county or by county road commission all highway construction projects for the fiscal year and all expected projects for the ensuing fiscal years." Similar language has been included in each subsequent appropriation act through the current fiscal year.[1]

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[1] The State Budget Office was added as a listed report recipient in 2001 PA 59, the FY 2001-02 appropriations act.

In the FY 2004-05 transportation appropriation act (2004 PA 361), the Legislature added a second sentence to the Section 307 reporting requirement: "The legislature shall approve the 5-year plan before it is implemented." In her bill-signing statement, Governor Granholm indicated that, based on the advice of the Attorney General, legislative approval of the Five Year Plan violated the separation of powers doctrine of Section 2, Article III of the 1963 Michigan Constitution, and was therefore unenforceable. The legislative approval sentence has not been included in subsequent appropriations acts.

The projects listed in the Five Year Program are generally projects which the department intends to develop through construction; it is not a "wish list." Projects are selected through an annual "call for projects," and based on an asset management process. However, some projects shown on one Five Year Program may be dropped from subsequent Programs if the project is cancelled or deferred for various reasons, including environmental clearance problems, community opposition, or lack of funding.

***Development and Approval of the 2007-2011 Five Year Program***

The department presented its draft 2007-2011 Five Year Program to the State Transportation Commission in November 2006. The department then conducted a series of public "listening sessions" at locations across the state. The State Transportation Commission formally approved the final Program on January 25, 2007.[2] On January 31, 2007, the approved Five Year Program was sent to the Legislature in accordance with the Section 307 reporting requirement. Although the Program is a multi-modal program, the balance of this memo will be limited to a discussion of the proposed state trunkline highway program.

***2007-2011 Five Year Program – The Proposed Highway Program***

The state highway program as described in the 2007-2011 Five Year Program would total $6.63 billion over the five-year period. The Program includes routine maintenance as well as capital preservation, safety, and capacity improvement projects. As shown on the "Highway Investment" slide on page 4 of this memo, Program expenditures would be $1.6 billion in 2007, $1.3 billion in 2008, and $1.2 billion annually in years 2009 through 2011.[3]

The Five Year Program would be supported with an estimated $3.9 billion in federal-aid revenue, with the balance from state-restricted revenue.[4] State-restricted revenue would include an estimated $618 million in bond proceeds, $309 million in both FY 2006-07 and FY 2007-08. The use of bond proceeds in the first two years of the Program is the primary reason for higher program levels in those first two years. Available revenue in the last two years of the Program is reduced by an anticipated increase in debt service. The amount available for the department's capital program in later years is also reduced by anticipated increases in routine maintenance.

"Front-loading" the program is one of the reasons the department anticipates meeting its state trunkline pavement performance goals (90% in "good" condition) in 2007. However, as shown on the "Pavement

[2] The State Transportation Commission approved the Program on a unanimous voice vote. The process of review and approval used for the 2007-2011 Five Year Program was similar to that used in prior years. Meeting minutes from prior years indicate that the Five Year Program has been variously "approved," "supported," or "accepted" by the Commission. In most years the State Transportation Commission action was made by voice vote; in one year by record roll call vote; in one year, no vote was recorded.

[3] The slides on pages 4 and 5 of this memo were reproduced from the department's November 16, 2006 presentation to the State Transportation Commission.

[4] As indicated on page 20 of the Five Year Program, proposed program expenditures would exceed estimated revenues by $258.6 million over the five-year period – a 4% shortfall. Needless to say, there is some uncertainty in any projection of future revenue over a five-year period. While the House Fiscal Agency has not reviewed the revenue estimates in detail, they appear reasonable in relation to prior years' actual revenue. The department's revenue estimates are based on projections of current revenue sources and do not include additional revenue from possible increases in tax rates for dedicated transportation taxes, such as motor fuel, or vehicle registration taxes.

Condition" slide (page 5 below), state trunkline pavement condition, which peaks at 92% "good" in 2007, will begin to decline in subsequent years. The department's road preservation program will be unable to maintain road pavement condition to keep pace with anticipated pavement deterioration.

The "Highway Investment" slide identifies only $586 million for capacity improvement and new road projects. This program element would be $310 million in 2007, falls to $165 million in 2008, and is $38 million, $45 million, and $28 million in 2009, 2010, and 2011, respectively. This level of funding is not sufficient to advance to construction a number of capacity improvement projects currently under study.[5] For several major capacity improvement projects, the Five Year Program indicates that design, right of way acquisition, or construction phases will be "deferred pending reasonable assurance of achieving and sustaining statewide system condition goals and the identification of additional funding."

***Pavement and Bridge Condition Performance Goals***

The first Five Year Program, for years 1999 through 2003 identified state trunkline road pavement condition goals and bridge condition goals – goals that were first established in 1997 and 1998.[6] The goal for state trunkline freeway pavement condition was 95% in "good" condition by 2007, and for non-freeway trunklines, 85% in "good" condition by 2007. In public discussions these two goals are sometimes condensed into a single abbreviated goal of 90% in "good" condition. The department's classification of pavement as "good" or "poor" is based on a remaining service life model.

The department had adopted a similar goal for state trunkline bridges: 95% of state trunkline freeway bridges, and 85% of state trunkline non-freeway bridges in "good" condition by 2008.

***Funding Shortfall***

As noted above, the department's Five Year Program assumes the investment of $6.63 billion in the state trunkline road and bridge program over the 2007-2011 period. However, the Program indicates that this level of program funding will not be sufficient to sustain state trunkline pavement condition performance goals, or provide sufficient funding for capacity improvement projects.

***Sources***

The slides, "Highway Investment" and "Pavement Condition," shown on pages 4 and 5 below, were taken from the department's Five Year Transportation Program presentation to the State Transportation Commission, November 16, 2006. http://www.michigan.gov/documents/mdot/MDOT_STC_2007-2011_5-YearPlan_Presentation_11-16_178622_7.pdf

The entire Five Year Transportation Program is available from the department's website at http://www.michigan.gov/mdot/0,1607,7-151-9621_14807_14810---,00.html

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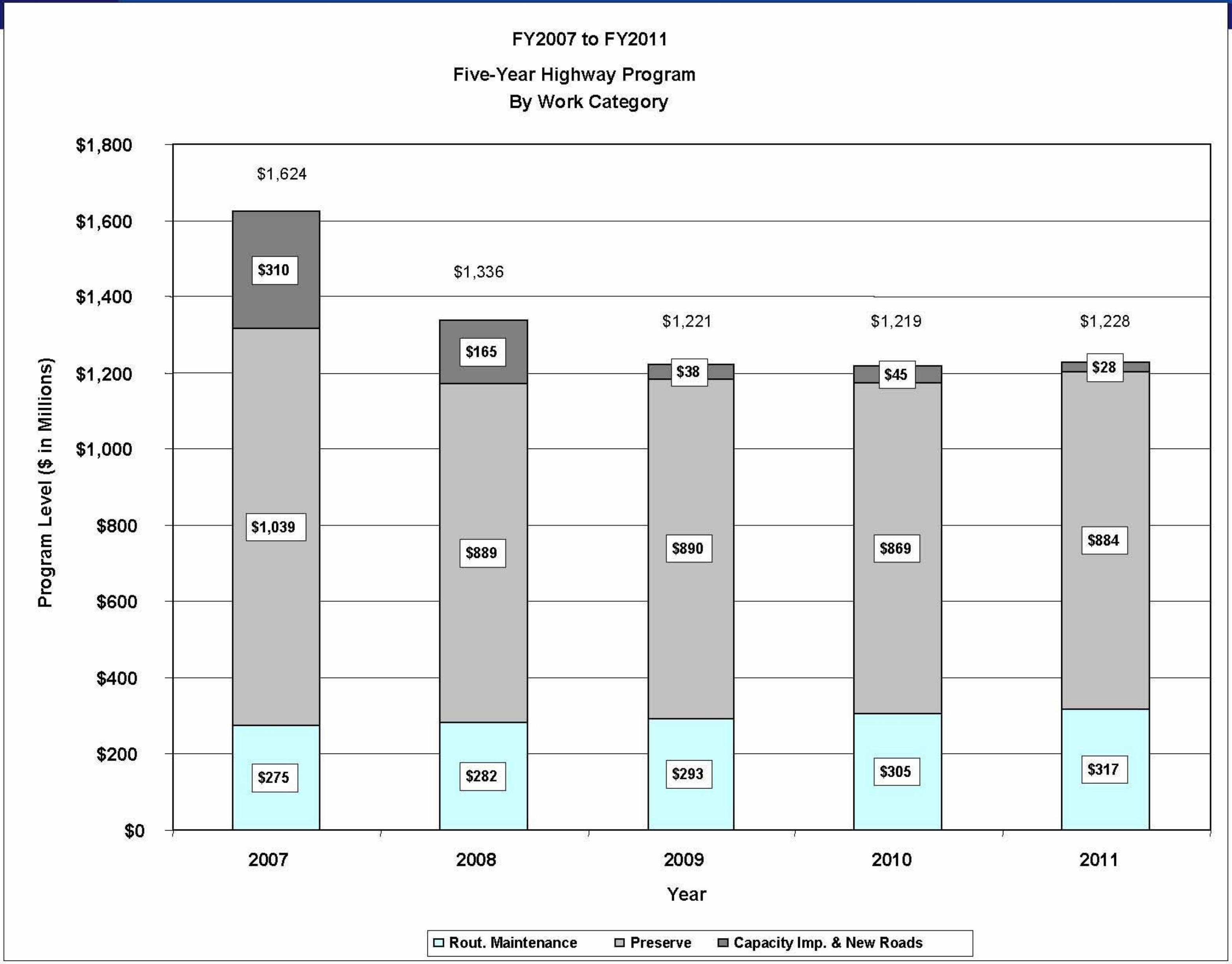
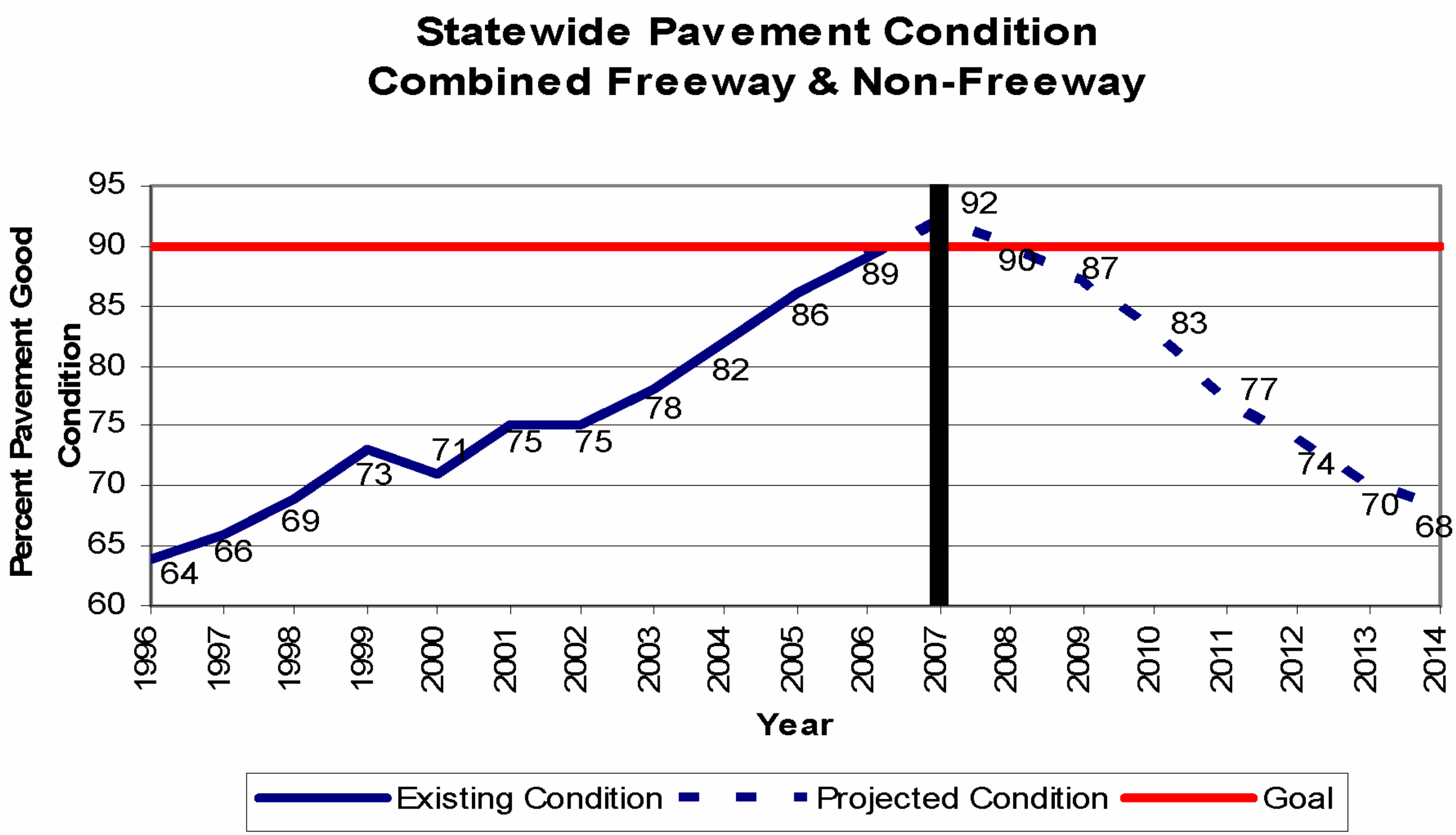
[5] As one example, the completed Environmental Impact Statement (EIS) for the widening of I-75 in Oakland County (8 Mile Road to M-59) estimated the cost of that project to be $572 million (2005 dollars).

[6] The department presented the goals to the State Transportation Commission in 1997 and 1998. It is not clear from the Commission minutes if the goals were formally adopted as Commission policy.

# Highway Investment



# Pavement Condition




❖ Will meet the pavement goal, however, existing investment level will not sustain the condition